Economic & Market Recap
October 13, 2017

Equities
Equity market activity was muted this week due to in line economic reports and limited third quarter company reporting. The earnings reports were mainly centered on the money center banks, which showed satisfactory results, yet certain business lines such as trading were relatively weak. Accordingly, the financial sector declined during the week. Another sector of weakness was telecommunications due to news of a reduction in video subscribers. Finally, the healthcare sector witnessed some decline due to the Trump administration signing an executive order that would end cost-sharing subsidies to the health insurers under the Affordable Care Act. The above-mentioned sector weakness was offset by strength in utilities and consumer staples, which benefited from a market rotation into income assets. An area of notable strength was the international markets, which are benefiting from continued foreign central banking stimulus while the U.S. central bank is in the process of tightening.

S&P 500

Our View
Rising equity values and the absence of volatility has been a consistent theme this year even with the U.S. Fed slowly increasing interest rates and beginning the process of gradually decreasing the size of its balance sheet. The previously mentioned statement should come as no surprise given the enormous amount of liquidity that has been pumped into the U.S. economy since the financial crisis. Moreover, according the Federal Reserve, the aggregate amount of reserves above the penalty-free band at depository institutions stood at over $2.16 trillion at the end of September. This is roughly $500 billion less than the peak achieved in August of 2014, but still incredibly high. Ample liquidity has made it inexpensive for consumers, corporations and the public sector to increase or refinance their debt loads. Using the U.S. commercial paper spread to T-bills as a proxy for liquidity availability, the current spread of 24 basis points (bps) is 18 bps below the average going back to 1996. By comparison, the aforementioned spread increased to over 300 bps in September of 2008. Moving forward, we believe the Fed will continue to gradually remove excess liquidity from the economy as long as inflations stays within close proximity to their 2% target.

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